

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03

H-02 PA-01 PRS-01 DODE-00 NSCE-00 SSO-00 USIE-00

INRE-00 EURE-00 /088 W  
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O R 281714Z SEP 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 5995

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY MANILA

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DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

MANILA PASS USDEL BANK/FUND MEETING

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: THE POUND

1. AFTER CLOSING ON MONDAY, SEPTEMBER 27, IN LONDON  
AT \$1.6810, POUND TENDED TO LOSE GROUND IN TRADING AROUND  
THE WORLD, CLOSING MONDAY AT ROUGHLY \$1.6705 IN NEW YORK  
AND OPENING IN LONDON THIS MORNING AT \$1.6655 WITH A  
TRADE-WEIGHTED DEVALUATION OF 44.6 AGAINST 43.6 AT YESTER-  
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DAY'S CLOSE. POUND HAS FALLEN STEADILY IN LONDON TODAY

IN AN EXTREMELY NERVOUS MARKET. PROFIT TAKING THIS MORNING TENDED TO CAUSE THE RATE TO GYRATE IN A \$1.6590 TO \$1.6650 RANGE, BUT FROM NOON ONWARDS, AFTER THE PRIME MINISTER'S SPEECH (SEE SEPTTEL) THE POUND FELL TO \$1.6320. FOREIGN EXCHANGE DEALERS REPORT THE MARKET IS FAIRLY THIN, WITH SPORADIC SELLING FROM THE CONTINENT INCLUDING SWITZERLAND AND SCANDINAVIA. DECLINE HAS BEEN "IN BITS AND PIECES" WITH DEALS ON BOTH SIDES. ONE DEALER CHARACTERIZED IT AS MUCH NOISE BUT LITTLE ACTION, WITH SALE ORDERS OF 1 TO 2 MILLION POUNDS MOVING THE MARKET. BANK OF ENGLAND HAS BEEN OUT OF THE MARKET. SOME DEALERS, INCLUDING ONE FROM LARGE NEW YORK BANK, CONSIDER THAT IT WOULD NOT TAKE TOO MUCH INTERVENTION FROM BANK OF ENGLAND AT CURRENT LEVELS TO STEADY THE MARKET, ONE DEALER SAYING \$30-\$50 MILLION COULD DO IT. OTHERS DISAGREE, SAYING STERLING BALANCES WOULD REMAIN A DRAG ON THE MARKET' BECAUSE STERLING HOLDERS WOULD SELL ON A RISING MARKET. WITH THE PROFESSIONAL MARKET IN A BEAR POSITION ON STERLING AS A RESULT.

2. ONE LEITMOTIV RUNNING THROUGH DEALERS' COMMENTS IS "WE NEED TO RESTORE CONFIDENCE." THEY CITE A DESIRE FOR A "BEDROCK" OR SOMETHING DRAMATIC, A SIGN OF RESOLUTION, TO GIVE CONFIDENCE TO THE MARKET. SEVERAL REFERRED TO CALLAGHAN'S SPEECH AS GOOD AND SOLID BUT THE PROBLEM NOW IS TO CONVINCE OTHERS THAT CONCRETE PROGRESS CAN BE MADE TOWARDS SOLVING THE UK'S ECONOMIC PROBLEMS.

3. THE FALL BELOW \$1.70 WAS NOT UNEXPECTED. SOME US BANKS WERE PREDICTING IT LAST WEEK, ALTHOUGH TODAY'S DECLINE OF OVER 5 CENTS IN A 24-HOUR PERIOD IS CATEGORIZED AS A SURPRISE. DEALERS REPORT THAT THE FALL TODAY IS NOT RELATED TO ANY CHANGE IN BASIC UNDERLYING TRENDS, BUT RATHER TO A HIGHLY NERVOUS MARKET AND ADVERSE PSYCHOLOGICAL REACTIONS. THEY CITE NERVOUSNESS THAT BUILT UP LAST WEEK (SEE PARA 7, LONDON 15042) ON GERMAN ELECTIONS AND TALK OF DM REVALUATION. ONE DEALER SAID IT COULDN'T COME AT A WORSE TIME. THIS COMMENT IS MADE IN CONTEXT OF LABOR PARTY CONFERENCE THIS WEEK, WHEN DIVISIVE STATEMENTS ARE BOUND TO BE MADE AND TO BE REPORTED IN CON-

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SIDERABLE DETAIL. FOR EXAMPLE, LEFT-WING LABOR MP NORMAN ATKINSON, CAPTURED KEY POST OF PARTY TREASURER THIS MORNING BY DEFEATING INDUSTRY SECRETARY VARLEY. AFTERNOON PRESS HAS SIGNALLED THIS AS MAJOR VICTORY FOR THE LEFT AND BLOW TO GOVERNMENT BECAUSE MR. ATKINSON HAD UNSUCCESSFULLY CHALLENGED MR. CALLAGHAN FOR THE TREASURERSHIP 5 TIMES AND IS A LEADING CRITIC OF THE CABINET'S ECONOMIC POLICIES.

4. AFTERNOON WIRE SERVICE REPORTS CHANCELLOR HEALEY HAS  
POSTPONED HIS DEPARTURE TO FAR EAST, ADDING ANOTHER  
ELEMENT OF SPECULATION TO MARKET UNCERTAINTY.

ARMSTRONG

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